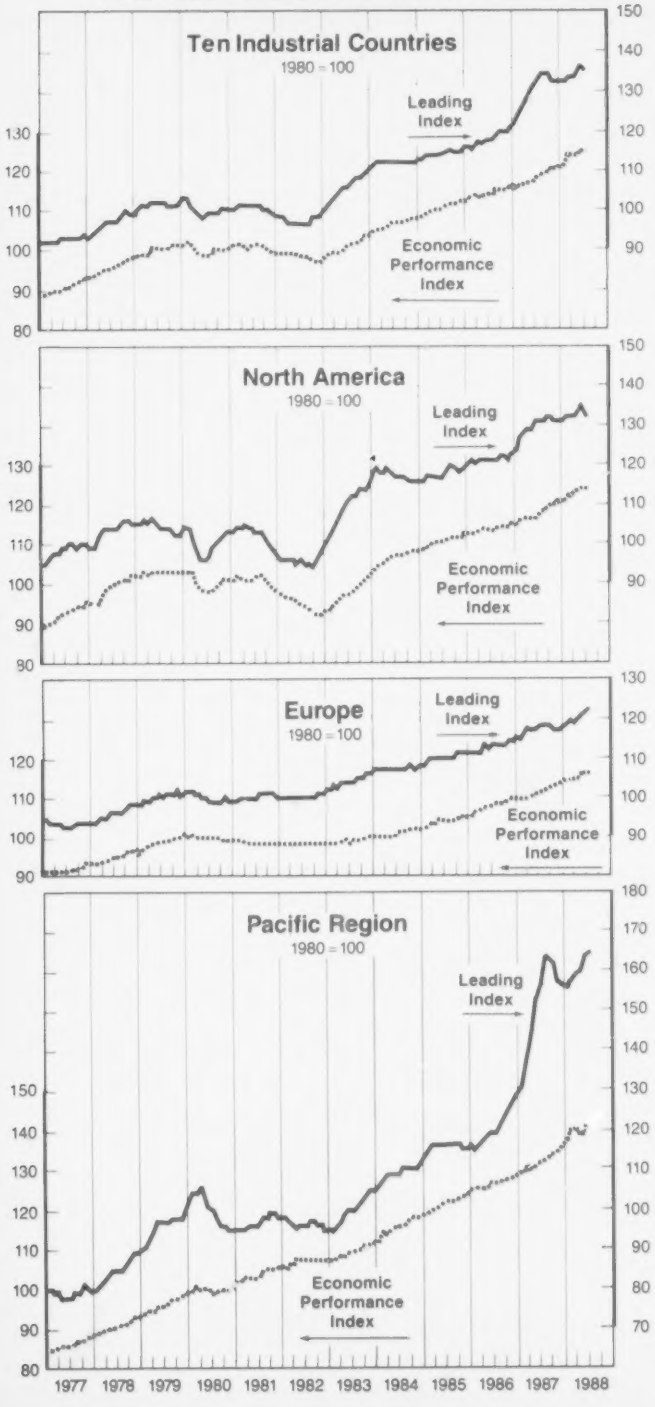
The Conference Board

Economic and Business Environment Program

International Economic Scoreboard

A Quarterly Report from The Conference Board **Fourth Quarter**

WORLD BUSINESS CYCLE



The global business cycle continues to show a steady forward momentum at a healthy but not headlong pace. The 10 countries taken together show growth rates of 5 percent for the economic performance index and 3 percent for the leading index. This pattern, or something close to it, has been going on so long it feels unexciting, even tedious, but it's actually quite an auspicious omen.

This favorable outlook is present in every country except Canada, where the leading index has stalled in recent months. The most spirited advance is signaled in Taiwan and Korea, with Australia not far behind.

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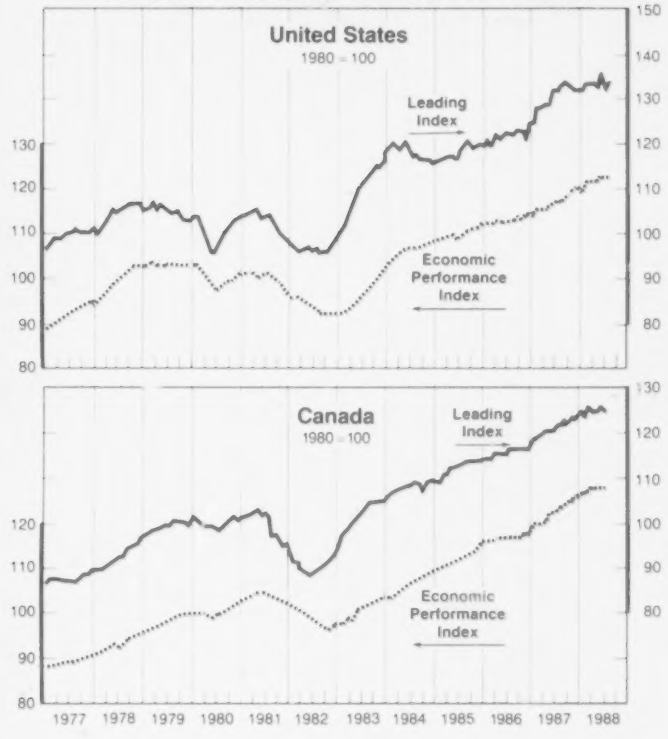
NORTH AMERICAN COUNTRIES



The United States economy continues on the expansion path, pretty much in parallel with the rest of the world but at a slightly more prosaic pace.

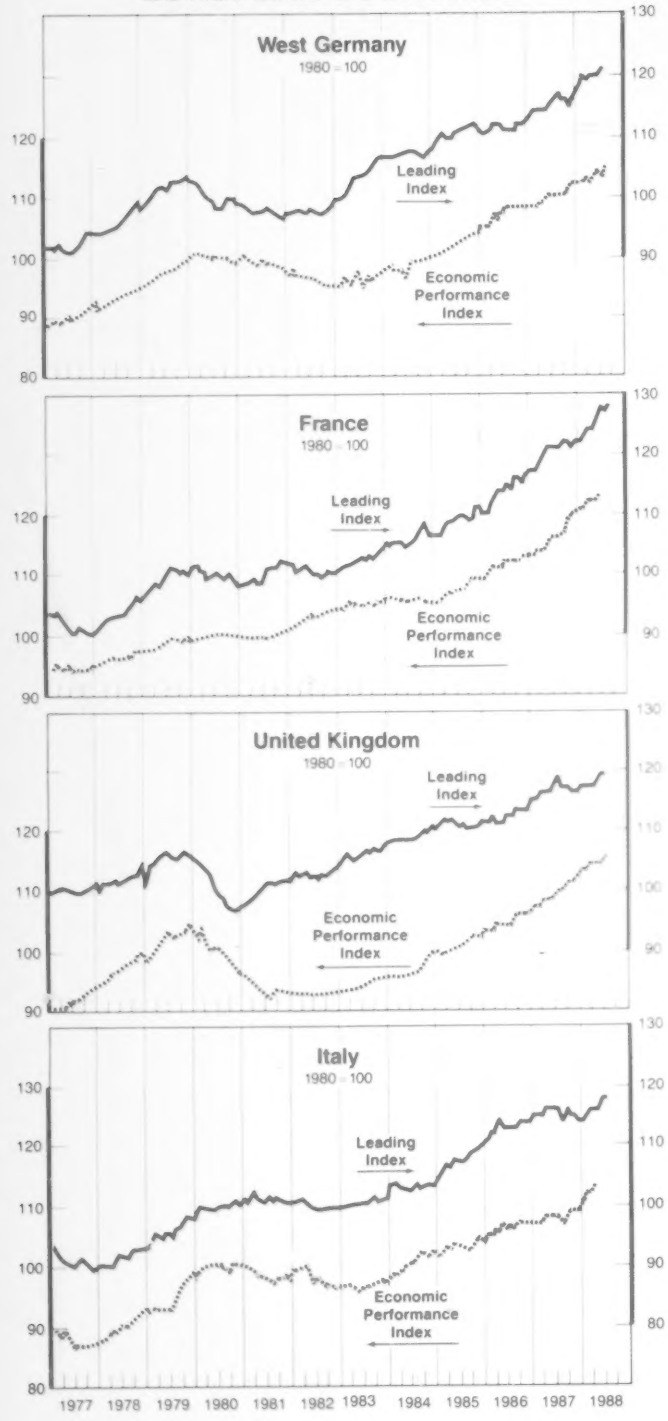
Both Canadian indexes flattened out a few months ago—the leading index as of April, the economic performance index along about June. It's still too soon to decide whether or not this pattern is more than a temporary hesitation.

Summary Of Growth Rates, Ten Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*			Current Reading on the Cycle	Latest Month Covered
	1976-86	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
	annual rates, percent								
Ten countries	3	6	5	5	4	3	3	Expansion continuing	July
9 countries excl. U.S.	3	6	6	5	5	4	6	Expansion continuing	July
North America (2)	3	5	5	4	3	2	0	Expansion continuing, leaders weak	July
Europe (4)	2	5	5	4	2	3	5	Expansion continuing	July
Pacific Region (4)	4	8	7	6	9	5	7	Expansion continuing	July
United States	3	6	5	3	3	0	2	Expansion continuing	Aug.
Canada	3	7	5	3	6	4	1	Expansion continuing, leaders weak	July
West Germany	2	4	3	5	5	5	6	Expansion continuing	Aug./July
France	2	7	7	6	4	5	7	Expansion continuing	June/Aug.
United Kingdom	2	6	5	5	1	1	3	Expansion continuing,	July
Italy	2	3	5	6	-2	1	4	Expansion continuing	Apr./July
Japan	4	8	7	5	9	4	6	Expansion continuing	July
Australia	3	6	4	10	3	6	8	Expansion continuing	July
Taiwan, R.O.C.	8	10	3	9	11	14	17	Expansion continuing, leaders strong	Aug.
Korea, R.O.K.	7	18	11	3	16	8	13	Expansion continuing, leaders strong	July

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

EUROPEAN COUNTRIES



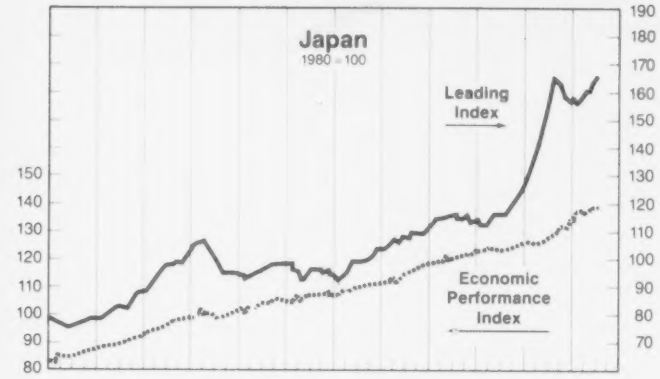
The German economy continues to look moderately robust. The economic performance index is advancing at a rate of 5 percent and the leading index has a 6 percent growth rate (as against an historical growth rate of 2 percent per year).

The French economy is moving a notch faster than West Germany, with a 6 percent growth rate for its economic performance index and a 7 percent rate for its leading index (also against a 2 percent rate, 1976 to 1986).

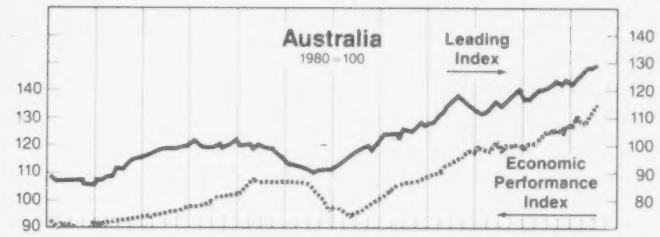
Although not advancing quite as fast as on the continent, cyclical expansion continues at a fairly good pace in the United Kingdom. A few months ago the leading index gave signs of faltering, but the latest data show the advance continuing.

The leading index for Italy, which showed a distinct downturn a half year ago, has now rebounded rather smartly.

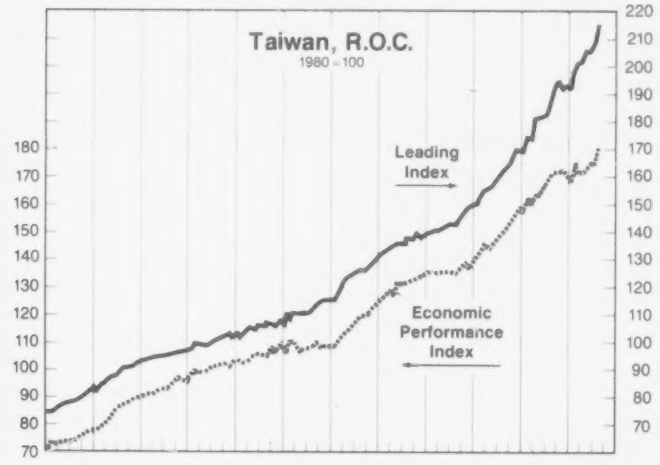
PACIFIC REGION COUNTRIES



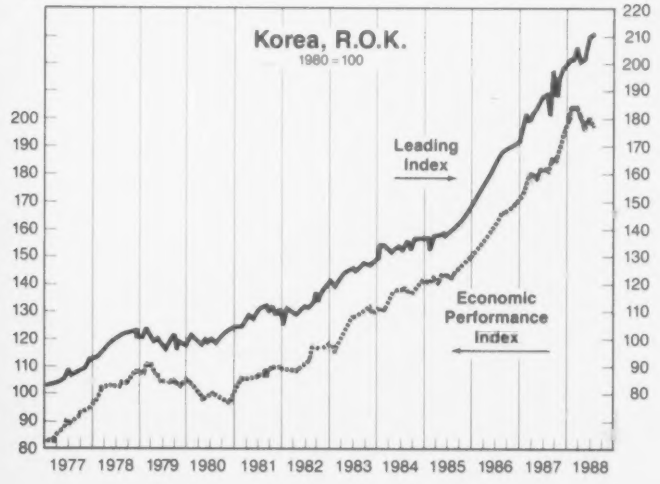
The latest reports from Tokyo suggest the Japanese business cycle continues on the upgrade at a sturdy pace.



Australia's business cycle continues to show brisk expansion through the summer months.



The business cycle in Taiwan shows the fastest growth of all the industrial countries, and the latest data show both the leading and performance indexes accelerating.



Growth in Korea's economy appeared to slow down at the beginning of summer, but the leading index continued to advance rapidly. (It is not clear how much the Korean statistics were affected by preparations for the Olympic Games.)

FURTHER PROGRESS AHEAD ON THE REAL TRADE DEFICIT

The U.S. trade deficit is headline news these days. Financial markets appear to be strongly influenced by current and prospective changes in the deficit. As noted in the *Scoreboard* earlier this year, the leading economic indexes yield some useful information on prospects for the deficit. At that time we projected a decline in the real trade deficit (that is, in 1982 dollars) from roughly $130 billion in 1987 to about $90 billion in 1988. So far, events have confirmed this optimistic forecast.

Our projection is based on a simple model that has a good track record in forecasting foreign trade flows (see charts). The procedure focuses on two major factors: relative prices and anticipated demand. We start by forecasting percent changes in exports and imports, and from that we compute levels of exports and imports and then the trade balance. The forecast of export changes is determined by using (1) prior changes in real dollar exchange rates covering 40 countries, as compiled by Morgan Guaranty, and (2) the prior growth in the *Scoreboard's* nine-country leading index excluding the U.S. The exchange rate is an important determinant of relative prices, while the index of leading indicators is a measure of anticipated foreign demand for U.S. products. The import forecast is based on (1) the same prior changes in the exchange rate but (2) uses the growth in the U.S. leading index. The latter provides insight into anticipated U.S. demand for imports.

The significant decline in the trade deficit since 1986 was plainly influenced by the sharp drop in the dollar exchange rate. It not only boosted the competitiveness of U.S. goods in markets abroad by lowering their prices, but also made imports more expensive for U.S. buyers. The same method that enabled us to forecast trade flows for 1988 can now be used to look at fiscal 1989, i.e., the year ending June 1989. This allows us to use more recent data on exchange rates and the leading indexes, which were not available when we made our forecast for 1988.

In general, the outlook for fiscal 1989 is good but not spectacular. Slower growth in both imports and exports lies ahead, but exports will still rise faster than imports, reducing the deficit. The growth rate in real imports is projected to fall from about 10 percent in fiscal 1988 to 6 percent in fiscal 1989, year over year. For real exports the growth rate is expected to fall from nearly 20 percent to about 13 percent. As a result, the deficit would fall from 114 billion 1982 dollars in fiscal 1988 to 86 billion in fiscal 1989. This is lower than it has been in any fiscal year since 1984, though still far from balance. The continuing growth in exports will, of course, help to sustain the U.S. economic expansion, while the growth in imports will help to sustain expansion in other countries. That's everybody being a good neighbor!

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus, the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board*, April 1980 and *Business Cycles, Inflation and Forecasting*, Ballinger Publishing Co., 1983.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. These growth rates are shown in the first column of the table on page 2 of the quarterly version of the *Scoreboard*.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

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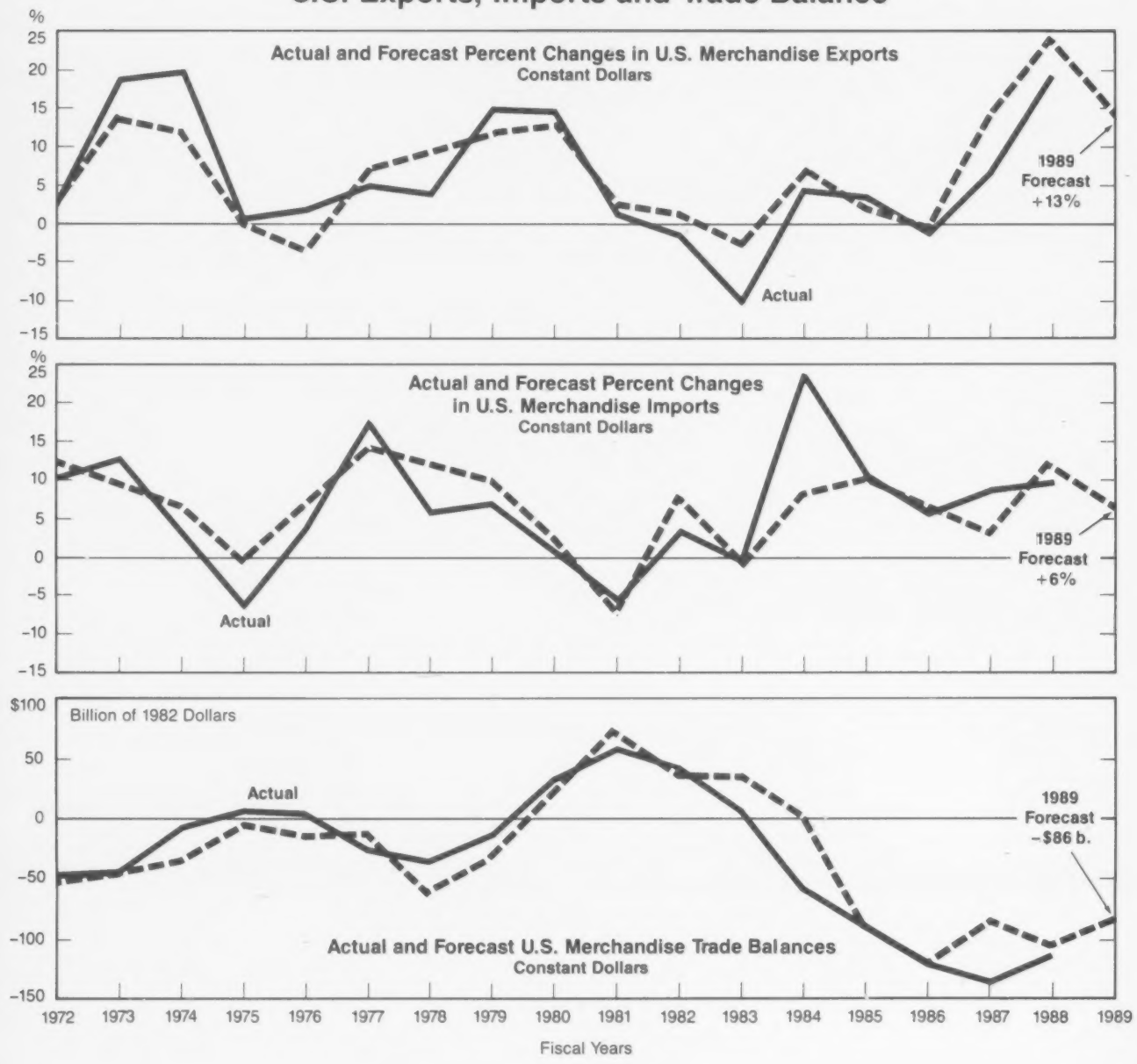
Columbia Business School
New York, New York 10027
Telephone: 212-280-2916

U.S. Exports, Imports and Trade Balance



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Reproduction permissible with full citation to The Conference Board as source.
Published quarterly at 845 Third Avenue, New York, New York 10022.